

# AUDIT NOTES

Office of the City Auditor

July 2015

## Risk Assessment

### Looking at the big picture

Each department of city government has its role to play. For some, the primary focus is on service to those outside government – citizens, individuals, business and institutional entities - which count on city government to provide services essential to everyday life. Other departments may have less of a public face, providing necessary support services to the more visible governmental activities. Whatever the level of public interaction departments may have, each department, as is true of life itself, faces risks. These risks exist both internally - within the department and within the control of management and externally - outside the department and beyond department management control. The true measure of effective management is its ability to recognize, plan for and cope with these risks.

In 1985, a group of five organizations dedicated to the accounting and auditing professions, recognizing a need for frameworks and guidance on enterprise risk management, internal control and fraud deterrence, formed a joint initiative named COSO (Committee of Sponsoring Organizations). It has become a recognized leader in these areas.

COSO states that the risk assessment process is a crucial part of risk management. The COSO-sponsored publication “Risk Assessment in Practice” identifies six risk assessment steps:

- ◇ Identify Risks
- ◇ Develop Assessment Criteria
- ◇ Assess Risks
- ◇ Assess Risk Interactions
- ◇ Prioritize Risks
- ◇ Respond to Risks

Consider the relationship of risk assessment to the work performed in city government. Too often during the busy week departments, managers and individuals devote the majority of their time and energy to the urgency of daily operations and activities. Time must be allowed to step back and look at the big picture and perform an assessment of the risks we face as we move from the present into the future. Think about the automobile - when we drive a car we are not looking at where we've been. Our focus is on where we are going. With this process and goal in mind, the City Auditor's office, in partnership with City Administration, will be assisting departments' management in the risk assessment process.

*“Value is a function of risk and return. Every decision either increases, preserves, or erodes value.”*

*- Risk Assessment in Practice by Deloitte & Touche LLP, Dr. Patchin Curtis and Mark Carey*

### In This Issue

- Risk Assessment
- Audit Projects/ Investigations
- Fraud Waste and Abuse Hotline as a Tool
- Spreading the Word
- An Ethical Environment
- Everybody Needs a Check-Up from Time to Time



**N O R F O L K**  
*Life. Celebrated Daily.*

# **FY 2015 Audit Projects/Investigations**

## **Reports/Memos Issued**

- Audit of the National Maritime Center (Nauticus)
- Norfolk Community Services Board - Audit of the Third Party Billing and Reimbursement Process
- Public Works - Contract Administration - Contract Monitoring
- Planning - Monitoring of Overtime
- General Services - The Sale of Scrap Metals
- Recreation, Parks and Open Space - Observations Regarding Employee Reimbursements, Activity Passes, and Work Schedules

**Number of Investigations Continued from Previous Fiscal Year(s) - 19**

**Number of Investigations Initiated in Fiscal Year 2015 - 65**

**Number of Investigation Cases Closed - 52**

## **Audits Completed (Draft Reports in Progress)**

- RPOS – Before and After School Program
- Citywide Leases
- Sick Leave Bank
- Time and Attendance Systems
- Norfolk Public Schools – Benefits Administration Transition
- Planning – Permit Process
- Scope Promotions Accounts

## **Audits in Progress**

- Norfolk Interagency Consortium
- Citywide Contract Administration
- Human Services - Juvenile Detention Center
- Norfolk Police Department - Property and Evidence Controls

# Using the Fraud, Waste and Abuse Hotline as a Tool

Fraud, waste and abuse hurts us all and, at this time when each city dollar means so much, each of us must do our part to fight them!

City and State Code make administration of the Fraud, Waste and Abuse Hotline an important work assignment of the Office of the City Auditor. In conjunction with the City Department of Human Resources, Norfolk Police Department, and the City Attorney's Office, we have developed a protocol for handling these allegations. As a result of the City Auditor's initial review, a case may be investigated by us, determined to not merit full investigation or referred to the appropriate outside party such as the police (in the case of potential criminal activity) or human resources (in the case of personnel issues). Often, as a result of our investigation work, we find opportunities for internal control system or operational improvement and provide departments with recommendations.

We receive allegations in a number of ways ranging from e-mail and phone messages on the Fraud, Waste and Abuse Hotline to phone calls, e-mails or letters received directly by us at the office. These allegations can come from city employees, citizens or other persons outside city government.

National and international surveys regarding fraud disclosure indicate that the hotline mechanism is the number one method for reporting fraud. The 2014 *Report to the Nations on Occupational Fraud and Abuse Global Fraud* by the Association of Certified Fraud Examiners ranks the various reporting methods with tips representing some 42% of reported fraud. Once again "tips are by far the most common way that occupational fraud schemes are detected", with this form of reporting dominating the survey since tracking began in 2002. This reinforces the importance of the City's Fraud, Waste and Abuse Hotline as a vital fraud-fighting tool.

Information regarding our work from the Fraud, Waste and Abuse Hotline since its inception and the past two fiscal years is given below.

Type of Contact*			
	From Inception+	FY 14	FY 15
Internet	90	14	17
Call	66	8	31
Email	14	3	4
Mail/Note	14	4	5
In Person	10	3	1
Referred In	5	2	2
Total Received	199	34	60

+Started October 2010

\*These numbers may differ from the table to the right (Status of Cases) because some cases have multiple issues.

Status of Cases			
	From Inception+	FY 14*	FY 15*
Referred	81	14	14
Substantiated	28	2	2
Unsubstantiated	62	7	12
Partially Substantiated	7	0	1
Not in our Jurisdiction	5	0	0
Unable to investigate/ No Action Necessary	16	1	4
Open as of the end of the Fiscal Year	32**	19	32
Total Cases Received	231	43	65

+Started October 2010

\*Excludes cases continued from prior year.

\*\*All active cases carried forward from previous fiscal years were closed prior to June 30, 2015. Therefore, this number reflects active cases as of the end of FY 15.

## Spreading the Word about the Hotline

On the eve of FY 2015, Thursday, June 26, 2014, the City Auditor, accompanied by his audit staff and at the request of the Utilities Department director, made a presentation to the department's senior leadership on the Fraud, Waste and Abuse Hotline. They reviewed the background and processes of the hotline including the obligation of each employee to report fraud, waste and abuse, examples of allegations the office has investigated and responded to questions from the audience. Thanks Utilities for your involvement in helping us promote the Hotline!

## Promoting an Ethical Environmental

Ethics is a crucial element underlying all functions of city government. In the interest of promoting an ethical environment here at the City of Norfolk, the City Auditor's office has been working with the Department of Human Resources to bring an ethics awareness training curriculum to all city employees. We started the "Tone it Up: Ethical Fitness" sessions by presenting to the Senior Management Executive Team in March 2015 and have continued this endeavor by going onsite to departments or providing scheduled sessions at several locations. Alongside us, Jennifer Speight, Human Resources Manager, has been doing a great job getting the word out on Ethics. She has worked untiringly to make this "first of its kind" citywide mandatory training a success which has been favorably received by employees at all levels. We have successfully trained 1,259 employees citywide (1,238 classroom, 21 online) and we will continue to have training sessions into FY 2016. We appreciate Human Resources Director Capri Stanley-Smith allowing us to team together to get the message out.

# Everybody Needs a Check-Up from Time to Time!

Each of us may think we are doing fine health-wise but it is always good when we get confirmation from our doctor. Audit entities are no different! Peer reviews are required at least once every three years for audit organizations conducting audits in accordance with Generally Accepted Government Auditing Standards and so, in October 2014, it was time for us once again.



2014 Peer Review Team — Vivian Walker and Umesh Dalal

Our peer review for the period 2011 – 2013 was completed and we are pleased to report that we passed with no exceptions. A copy of the certificate (shown below) is posted on our departmental website. As we mentioned in our previous newsletter, the peer review is provided as a service by members of the Association of Local Government Auditors (ALGA) who offer their professional time and expertise to other member audit shops. This year our reviewers were from Tampa, Florida and Richmond, Virginia.

As a part of our reciprocal participation in the program, during the past year our office has provided peer review team members for Hanover County, Virginia; Chesterfield County, Virginia; San Antonio, Texas; and the Government of the District of Columbia (Office of the Chief Financial Officer, Office of Integrity and Oversight) reviews. These reviews provide an excellent opportunity for staff to interact with other audit professionals and learn more about the operations and municipal environment of our fellow auditors.

We understand that there is a long waiting list to participate in the peer review of ALGA member Honolulu!



## City Auditor Staff

**John Sanderlin, Jr., MBA, CPA, CIA,**  
**CGFM, CGMA, CFE**  
City Auditor

**Tammie Dantzler, MBA, CFE**  
Deputy City Auditor

**Bradford Smith, CICS**  
Deputy City Auditor

**Timothy Haycox, CPA, CGMA, CFE**  
Assistant City Auditor

**Michael Helmke, CISA**  
Assistant City Auditor

**Barbara Reeves, CICS**  
Assistant City Auditor

**James Tarantino, MSA, MBA**  
Assistant City Auditor

**Angela Kelley**  
Audit Analyst

## Contact Us

**City of Norfolk**  
**Office of the City Auditor**  
**810 Union Street**  
**Room 806**  
**Norfolk, Virginia 23510**  
**(757) 664-4045**